

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

NORTH SHORE GAS COMPANY)	
)	
Proposed General Increase)	No. 07-0241
In Rates for Natural Gas Service)	
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THE PEOPLES GAS LIGHT AND)	
COKE COMPANY)	
)	
Proposed General Increase)	No. 07-0242
In Rates for Natural Gas Service)	

**CUB INITIAL BRIEF ON THE ISSUE OF
PEOPLES GAS LIGHT AND COKE COMPANY'S
PROPOSED RIDER ICR**

CITIZENS UTILITY BOARD

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Pursuant to Section 200.800 of the Rules of Practice of the Illinois Commerce Commission (“Commission” or “ICC”), 83 Ill. Admin. Code 200.800, and the briefing schedule set by the Administrative Law Judges (“ALJs”), the CITIZENS UTILITY BOARD (“CUB”), by its attorney, submits its Initial Brief on the issue of Peoples Gas Light & Coke Company’s (“Peoples,” “PGL” or the “Company”) proposed Rider ICR in this proceeding. For the reasons described in detail below, CUB opposes adoption of either Rider ICR or any of its alternatives.

I. INTRODUCTION

CUB submits this brief separately from the Joint Initial Brief of the City of Chicago and the Citizens Utility Board to address CUB’s opposition to the Company’s proposed rate-tracking mechanism entitled “Infrastructure Cost Recovery” or “Rider ICR,” Staff’s proposed Rider QIP, and alternative Rider ICR (the Company’s modifications to Rider QIP). This brief corresponds to the parties’ common outline Section VII. New Riders, (C) Rider ICR.

CUB, the Attorney General, and the City of Chicago (collectively, “Governmental and Consumer Intervenors” or “GCI”) co-sponsored the testimony of Mr. Michael Brosch, who recommends that the Commission reject the Company’s proposed piecemeal tariff riders.¹ In addition to Rider ICR, the Companies’ proposal includes the following three riders: 1) the Volume Balancing Adjustment (“Rider VBA”), which partly “decouples” the Companies’ revenue requirement recovery from variations in usage; 2) the Uncollectible Balancing Adjustment (“Rider UBA”), which adjusts rates for changes in uncollectibles expenses associated with the gas commodity cost portion of customers’ bills; and 3) the Enhanced Efficiency Program” (“Rider EEP”), which is intended to fund the costs of the Companies’ proposed conservation program. Each of these riders reduces the Company’s incentive to control costs, disturbs the balanced, symmetrical review of revenues and expenses in a traditional rate case, and reduces the Company’s overall risk of doing business by transferring that risk to ratepayers.

These riders violate the prohibition against retroactive and single issue ratemaking, and violate the Public Utilities Act requirement that all rates and other charges be just and reasonable and used and useful. Further, the Company failed to present compelling evidence to demonstrate that these riders satisfy generally-accepted regulatory criteria that the Company itself admits must be satisfied to warrant exceptional rate treatment in a rider, that costs must be “(1) uncontrollable by the utility; (2) variable and unpredictable; and (3) material in nature.” GCI Ex. 1.0 at 17, L. 12-13 (Mr. Brosch’s discussion of the Company’s response to data request AG 4.06). These riders should therefore be rejected. Details of CUB’s positions with regard to riders other than ICR are included in the Joint Initial Brief of the City of Chicago and the Citizens Utility Board.

¹ The City of Chicago does not sponsor Mr. Brosch’s testimony with regard to Rider ICR.

Proposed Rider ICR is, according to the Company, a way to enable the “timely recovery of certain incremental capital-related costs (i.e. return on investment, associated income taxes, and depreciation expenses) incurred by Peoples Gas to support proposed acceleration of its ongoing gas system enhancements to replace cast iron and ductile iron (“CI/DI”) mains.” PGL Ex. RAF-1.0 at 2, L. 23-27. If adopted, Rider ICR would compare recorded capital expenditure dollars in specified accounts to a base period level, with rate adjustments for any increased spending. *Id.* at 46, L 905-907. The Company’s preferred proposal (its original Rider ICR) does not contain any limits on total spending under the rider surcharge, makes all plant investment eligible for rider recovery, contains no review of the prudence of the investment, does not reflect savings relating to the investments, and does not provide for a refund of the Company’s return on equity that is in excess of its authorized return to account for decreased business risks associated with the recovery of these costs in a rider. These core problems with Rider ICR, identified by both Staff and GCI witnesses, demonstrate that Rider ICR is designed to primarily benefit shareholders at ratepayers’ expense.

Though Staff remains opposed to adoption of Rider ICR for many of the same reasons stated herein, Staff Witness Ms. Dianna Hathhorn proposed an alternative to Rider ICR that addresses some of Staff’s concerns with the rider. Nonetheless, Staff continues to recommend that Rider ICR be rejected, and recommends its alternative be adopted only if the Commission determines that recovery of the cost of Peoples’ accelerated main replacement program is appropriate through a rider. Staff Ex. 1.0 at 21, L. 442-445. Ms. Hathhorn’s proposed alternative is based on Part 656 of the Commission’s administrative rules (83 Ill. Admin. Code 656), which governs the water and sewer utilities’ qualifying infrastructure plant surcharge authorized by Section 9-220.2 of the PUA (220 ILCS 5/9-220.2). *Id.* at 21, L. 445-449. In

contrast to the Company's proposed rider, under which all capital additions would be eligible, Ms. Hathhorn proposes to include new criteria to limit qualifying infrastructure plant to only plant costs that are: non-revenue producing, replacements of existing plant items, and installed to replace cast iron and ductile steel main and ancillary infrastructure. *Id.* at Attachment A. Staff's proposed alternative (referred to herein as "Rider QIP") further includes, among other things, a total surcharge cap of 5% of base rate revenues billed to customers, an annual prudence reconciliation, a rate of return credit that would refund the Company's excess rate of return over its authorized rate of return, and an annual audit. *Id.* None of these elements is present in the Company's preferred Rider ICR.

In rebuttal testimony, Company witness Mr. James Schott stated a willingness to adopt a modified version of Staff's proposed alternative (referred to herein as "Alternative Rider ICR") in response to concerns raised by Staff and intervenors, though the Company continues to request adoption of its originally proposed Rider ICR. NS/PG Ex. JFS-2.0 at 4, L 59-61. Mr. Schott agreed to the following Staff recommendations: specific criteria for determining qualifying infrastructure plant; the creation of a sub-account for revenues; a cap on total spending under the rider in the amount of 5% of base rate revenues; and an annual reconciliation of prudently-incurred costs. NS/PG Ex. JFS-2.0 at 4-5, L. 69-81. The Company, however, rejected Staff's proposed rate of return credit. NS/PG Ex. JFS-3.0 at 3, L. 42-60.

CUB opposes the Company's originally proposed Rider ICR, Rider QIP, and the Company's Alternative Rider ICR because they do not cure the inherent infirmities associated with rider recovery of basic infrastructure costs. Specifically:

- Proposed Rider ICR violates legal and regulatory criteria used in traditional ratemaking and violates Illinois law prohibiting retroactive ratemaking;

- Rider ICR, without a rate of return credit, violates the Commission’s requirement to provide least cost service, because it allows the company to earn a virtually unlimited rate of return at customers’ expense.
- Administration of the program, either as structured by the utility or as modified by Staff, would be burdensome to implement.

For these reasons and those stated below, CUB recommends that the Commission reject Rider ICR, Alternative Rider ICR and Staff’s recommended Rider QIP.

II. ARGUMENT

A. RIDER ICR & ITS ALTERNATIVES FAIL TO SATISFY LEGAL AND REGULATORY CRITERIA JUSTIFYING SPECIAL RATE TREATMENT

1. Legal Criteria

The PUA requires that all utility rates and charges must be just and reasonable. 220 ILCS 5/9-101. Additionally, any significant addition to existing facilities or plant can only be included in a utility’s rate base if the Commission determines that it is both prudent and used and useful in providing utility service to the utilities’ customers. 220 ILCS 5/9-212. Rider ICR allows infrastructure costs to be added to rate base before the Commission makes the determination that the plant is prudent, used and useful. Thus, Rider ICR violates these provisions of the PUA by requiring customers to pay for infrastructure that has not been demonstrated to be used and useful or just and reasonable. Section 9-201(c) of the PUA further dictates that “the burden of proof to establish the justness and reasonableness of the proposed rates or other charges, classifications, contracts, practices, rules or regulations, in whole and in part, shall be upon the utility.” 220 ILCS 5/9-201(c). CUB submits that Peoples has failed to meet its burden to justify exceptional rate treatment for the costs proposed to be collected in Rider ICR.

2. Regulatory Criteria

Generally accepted regulatory criteria demands that, in order to warrant special rate treatment of isolated costs or expenditures in a rider, the costs must be large, volatile, and beyond the control of management. GCI Ex. 1.0 at 49, L. 20-21. Rider ICR does not, however, address or respond to issues of volatility or uncertainty or costs beyond the control of management. Though the Company recognizes these same regulatory criteria as necessary to justify recovery of costs in a rider, it has failed to demonstrate how costs relating to Rider ICR are actually volatile, uncertain, or beyond the control of management. See GCI Ex. 1.0 at 17, L. 12-13. In fact, these costs are well within the control of management. Management presumably determines facilities planning and design, construction workforce management, materials procurement, contractor bidding and administration and other elements of capital expenditure optimization. GCI Ex. 1.0 at 54, L. 4-9. This presumption is substantiated by the fact that the Company has been able to successfully manage the costs of its existing main replacement program, while simultaneously making numerous improvements in its operations to create efficiencies. These efficiencies include various new technologies that “allow Peoples Gas to operate and maintain its system with fewer employees than were required in 1995.” PG Ex. LTB-1.0 at 13, L. 289-290. Furthermore, Company witness Borgard stated that “[p]rospectively, Peoples Gas will have to continue its cost control activities and continue to push for even more efficiencies to maintain operating and capital costs at a reasonable level into the future so that the need for rate relief will be mitigated.” PG Ex. LTB-1.0 at 20, L. 437-439. Thus, the Company acknowledges its role in managing capital costs, which demonstrates that these costs are not volatile, uncertain or beyond the control of management.

The Company's justifications for this extraordinary proposal include: "(1) [f]inancial benefits associated with expending current dollars for a major monetary undertaking; (2) [b]enefits relating to the replacement of Peoples Gas' low pressure system; and (3) [b]enefits afforded by the opportunity to respond to the dynamic development in the City of Chicago. PG Ex. JFS-1.0 at 6, L. 121-125. Though these goals may be desirable to the Company, they do not meet the cost criteria – volatility and unpredictability - that the Company itself admits must be satisfied for rider treatment. PG Ex. RAF-1.0 at 9, L. 180-187. Peoples Gas witness Mr. Feingold attempts to show that infrastructure improvement costs are an example of base rate components that exhibit volatile or unpredictable characteristics. PG Ex. RAF-1.0 at 11, L. 223-226. But the fact that the Company has been able to maintain a safe and reliable gas distribution system with its existing main replacement program, while simultaneously avoiding a rate case for 12 years, demonstrates otherwise.

Mr. Feingold further attempts to characterize rider treatment for infrastructure costs as part of a wider industry trend. He claims that the "infrastructure issue is receiving broad attention and favorable rate treatment" from the "utilities industry." NS/PG Ex. RAF-2.0 at 23, L. 458-58. Mr. Feingold claims that eight states out of fifty have approved infrastructure riders to be "indicative of broad attention and favorable rate treatment for infrastructure-tracking tariffs generally" (*Id.* at 25, L. 1-3), but he does not include any information on the facts of those proceedings. In fact, on cross-examination, Mr. Feingold acknowledged that the information the Company has collected on various riders is not comprehensive. September 14, 2007 Tr. at 1280. Nonetheless, this Commission must base its determination on the facts before it in this record – not based on facts and circumstances present in other states.

The Company's desire to accelerate its existing main replacement program to "modernize and strengthen utility infrastructure in the City of Chicago," (NS/PG Ex. JFS-2.0 at 11) sooner rather than later is a laudable goal. But if it is done, it must be done in a way that does not unduly reward the Company at customers' expense. The Company's proposed acceleration of basic utility plant investment, in isolation, "may contribute to excessive overall rate and revenue levels because other revenue requirement determinants such as labor costs, non-labor expenses, changes in the cost of capital and future revenue margin trends may also significantly impact future achieved returns." GCI Ex. 1.0 at 58, L. 4-7. To avoid these negative consequences, an accelerated program could be accomplished within the traditional regulatory construct if the Company simply filed a rate case when its capital spending negatively affected its authorized return. The Company has not substantiated a need for an accelerated program that will impose costs on consumers above the costs of other plant additions to rate base – both completed and planned – approved in this proceeding to maintain a safe and reliable system. Peoples Gas could accelerate its program, as desired, without the use of extraordinary rate treatment while maintaining the balanced test year review process. As discussed by Mr. Brosch,

If accelerating investment levels is an economically justifiable decision, there is no restriction under traditional regulation to preclude such acceleration. One of the problems with proposed Rider ICR is that it removes this balanced incentive by granting expedited piecemeal rate increases for broadly defined incremental plant investments, thereby excusing management from the obligation to carefully manage and optimize capital expenditure levels.

GCI Ex. 1.0 at 55, L. 16-21. If these additional infrastructure costs were approved in a rate case, rates would be symmetrical, where rate base, operating revenues, expenses and the cost of capital are properly matched, and the Commission has ample time to review and consider the prudence

of the investments, and associated O&M savings, so that customers are not unduly harmed. GCI Ex. 4.0 at 50, L. 17-23.

B. NEITHER PROPOSED RIDER ICR OR ITS ALTERNATIVE CONSTITUTES LEAST COST SERVICE

Peoples Gas’ proposed Rider ICR and its Alternative Rider ICR violate the Public Utilities Act’s (“PUA’s”) requirement to provide least-cost service. Section 8-401 of the PUA requires that “[e]very public utility subject to this Act shall provide service and facilities which are in all respects adequate, efficient, reliable and environmentally safe and which, consistent with these obligations, constitute the least-cost means of meeting the utility’s service obligations.” 220 ILCS 5/8-401. First, the Company has not demonstrated that accelerating the program is necessary to provide safe and reliable utility service – only that it is desired. Second, the costs of adding Rider ICR, or its alternative, to the existing main replacement program already in base rates will only increase the cost of service for ratepayers, because in addition to paying a premium for infrastructure upgrades, customers will not realize cost savings from improved operational efficiency, or associated accounting offsets. Thus, Mr. Brosch concluded that Rider ICR “will systematically overstate the Company’s revenue requirement by failing to reasonably account for all of the changes in costs that are associated with changes in plant investment levels.” GCI Ex. 1.0 at 65, L. 13-15.

1. Rider ICR Is Not Needed to Maintain a Safe & Reliable Distribution System

It is undisputed that the Companies’ current main replacement program has allowed the Company to maintain a safe and reliable system. In fact, Mr. Schott, Vice President – Regulatory Affairs of the Integrys Energy Group, Inc., Peoples Gas’ parent company, testified that:

Peoples Gas commissioned Kiefner and Associates, Inc., to perform a study (“Study”) of its Existing Replacement Program and to assess the feasibility of its continuation. The Study affirms that the Existing Replacement Program has been conducted in a prudent and reasonable manner and reflects an analysis that validates that the time horizon and replacement criteria incorporated in the Existing Replacement Program continues to support a reasonable, measured and safe approach to CI/DI replacement.

PG Ex. JFS-1.0 at 5, L. 98-102. Other than its general preference to avail itself of the opportunity to replace more mains “without negative financial consequences” (*Id.* at 4, L. 79), the Company has not explained why its existing cast iron main replacement pace is insufficient. In fact, according to Mr. Brosch, the Kiefer study demonstrates that the existing main replacement program “has been conducted in a prudent and reasonable manner and represents a measured and safe approach to CI/DI replacement.” GCI Ex. 1.0 at 61, L. 8-9. Without any evidence, or even claim, that the accelerated program is necessary for the provision of safe and reliable service, the Company fails to meet its burden of demonstrating this extraordinary rate treatment is warranted.

Further, as testified by Mr. Brosch, Peoples Gas has not explained “why the productivity gains it has achieved historically, which have allowed it to continuously invest in new utility plant while also earning reasonable returns and avoiding a rate case for more than 10 years, will suddenly terminate in the future, such that new piecemeal rate tracking tariffs like Rider ICR are now needed to increase rates between rate cases for any increased capital investments.” GCI Ex. 1.0 at 49, L. 7-12. The major change in the recovery of basic infrastructure costs that Peoples Gas seeks, aside from failing general regulatory principles restricting such treatment to volatile, unpredictable costs, is simply not supported with evidence that it is necessary for the provision of safe and reliable service.

2. Neither of Peoples Gas' Proposed Rider ICRs, Nor Staff's Rider QIP Takes Into Account O&M Savings that Will Result from the Improved Infrastructure

In justifying Peoples Gas' proposed Rider ICR against the existing mains replacement program, Mr. Schott claims that "[t]he Accelerated Program, however, presents the Company with an opportunity to achieve possible additional savings through its greater flexibility and acceleration features." NS/PG Ex. JFS-2.0 at 10, L 188-191. However, no recognition of cost savings is reflected in the Companies' proposal. In surrebuttal, Mr. Schott actually quantifies potential annual leak repair savings at \$3,000 per mile if the accelerated program were adopted, but fails to propose that these savings be incorporated into the tariff calculations. NS/PG Ex. JFS-3.0 at 8, L. 170-172. Nonetheless, the \$3,000 per mile is only one component of savings and does not reflect other potential productivity or cost saving effects of the accelerated main replacement program, which *would* be taken into account in a balanced test year analysis. As Mr. Brosch testified, "it would likely be impossible to design a comprehensive tracking mechanism to capture all financial impacts arising from new capital investment because of the capital intensity of the utility business and the complex ways in which changes in utility plant assets impact business operations." GCI Ex. 1.0 at 58, L. 4-7.

Thus, though the utilities maintain that Rider ICR "will not result in additional costs to ratepayers over what would be paid in any event for CI/DI main replacement in the aggregated and Peoples Gas will not obtain any financial benefit that is different from the rate case treatment which it is normally accorded for capital expenditures," (NS/PG Ex. JFS-2.0 at 9, L. 164-168), this is clearly not the case. First, customers are still paying a premium to accelerate an existing program that has been demonstrated to be reasonable and provide for safe and reliable gas

service. Second, customers will be paying for the accelerated program in real time as the investments occur, but the savings the Company will realize immediately will not be recognized in rates until either the Company chooses to file a rate case or the Commission initiates a rate case on its own. Staff witness Mr. Peter Lazare also argues that Rider ICR should be rejected, because it would increase customer bills between rate cases that “would amount to an extraordinary cost for ordinary service.” ICC Staff Ex. 20.0 at 24, L. 533-542. Therefore, in addition to its myriad infirmities, under the Companies’ proposal, customers must pay a premium today for an accelerated main replacement program, without realizing any rate benefits for possibly several years.

Additionally, neither of the Company’s proposals (Rider ICR or Alternative Rider ICR) takes into account other adjustments and accounting offsets associated with the infrastructure investment and recorded on the Companies’ books, such as additional deferred income taxes arising from incremental plant investment and plant retirement activity. GCI Ex. 1.0 at 62, L. 14-15; *Id.* at 63, L. 7-9. Mr. Brosch testified that, “[w]hile retirement entries do not change rate base, because of the simultaneous recording of a reduction to Plant in Service and a reduction to Accumulated Reserve for Depreciation, there should be a direct reduction in depreciation expense accruals associated with removal of the retired plant.” *Id.* at 63, L. 10-13. These deficiencies further illustrate the inherent problems in attempting to isolate plant investment recovery in a rider and the difficulties in capturing all the potential cost savings associated with the higher than historical level of plant investment for which customers pay a rate premium.

3. Rider ICR Decreases Utility Risk, Provides for Virtually Unlimited Returns for the Company, and Increases Customer Costs

The Company’s claim that no additional benefits would be bestowed on it by Rider ICR rings hollow. NS/PG Ex. JFS-2.0 at 11, L. 206-208. In fact, Mr. Brosch testified that “Rider

ICR can only produce potentially higher prices for consumers, with no corresponding demonstrated benefits. In its proposed form, any growth in spending on mains, services and house regulators above historical average levels would translate directly into higher future prices for consumers,” which provides a direct benefit to the Company in the form of increased rate base and a corresponding higher return. GCI Ex. 1.0 at 21, L. 13-16. A higher return may result, as the Company is earning its authorized rate of return on investments placed into rate base without consideration of the cost savings from improved operational efficiency. Meanwhile, the Company retains those savings, in addition to other financial benefits associated with its improved system, like a higher return on equity, until the next rate case when costs and revenues are again properly matched. Additionally, the structure of the proposed tariff is not symmetrical, as Rider ICR would not provide credits whenever future capital expenditures in a particular year were lower than average historical spending. GCI Ex. 1.0 at 59, L. 10-12.

As mentioned above, the Company rejected Staff’s proposed rate of return credit because it would “act as a disincentive to conduct infrastructure replacement, except when the Company was not earning its full authorized rate of return.” NS/PG Ex. JFS-3.0 at 5, L. 104-105. This is simply not true. As Mr. Schott’s own example shows, even with a rate of return credit, the company could still earn returns in excess of its authorized rate of return. NS/PG Ex. JFS-3.0 at 5-6, L. 106-116. As Mr. Schott’s example demonstrates, the rate of return credit reduces the authorized rate of return to account for infrastructure investment only when the company is earning more than its authorized rate of return. The credit does not affect excess revenues due to weather or exceptional cost control. Furthermore, this mechanism cannot act as a disincentive because, as discussed below, even with the credit in place, the Company is still able to grow earnings by shifting business risk from Peoples Gas to ratepayers.

Both Rider ICR and Alternative Rider ICR place the cost of all new investment on customers while the Company is allowed to almost limitlessly grow earnings. This earnings growth comes from two sources. First, the Company will realize a return on all new investment placed into rate base through Rider ICR or Alternative Rider ICR. Second, the Company will grow earnings through retaining any and all operational savings from new investment between rate cases. Without a cap, the Company is provided a virtually unlimited return, constrained only by limits placed upon the total amount of investment the company is allowed to make between rate cases (if Alternative Rider ICR or Rider QIP and the 5% spending cap were adopted), and the ability of that infrastructure investment to produce operational savings.

C. PROPOSED MODIFICATIONS TO RIDER ICR WOULD ADD CONSIDERABLE COMPLEXITY TO THE ALREADY BURDENSOME PROPOSAL

Staff's proposal to model Rider ICR on the existing Qualifying Infrastructure Plant rule for water and sewer utilities (83 Ill. Admin. Code 656) includes provisions that appear to alleviate at least some of the basic concerns articulated by Staff and intervenors. As explained above, the Company agreed to many of these suggested modifications, including a prudence review and a cap on the total surcharge in the amount of 5% of base rate revenues. Also, in contrast to Peoples Gas' proposal, which would include all capital additions, Rider QIP limits recovery through the rider to only those additions that are demonstrated to be part of the accelerated mains replacement program. ICC Staff Ex. 1.0 at 22-23, L. 470-472. However, the agreed-to prudence review will be difficult to conduct, as the language describing the investment included in Rider ICR is overly broad and includes many types of infrastructure replacement. Making the determination as to what qualifies for inclusion in the rider would take considerable evaluation and judgment on behalf of Staff, the Commission and intervening parties.

As Mr. Brosch testified, not only does “Staff’s QIP proposal not remedy the problems with Rider ICR, but instead adds complexity through the introduction of vague qualifications language that is itself disputed and proposed to be liberalized by Peoples Gas.” GCI Ex. 4.0 at 3, L. 14-18. Peoples Gas responded to Staff’s proposed limitations to qualifying infrastructure under the rider by proposing an expansive liberalization of Staff’s language. GCI Ex. 4.0 at 31, L. 22-23. If adopted, the Company’s changes “may cause significant additional capital investment other than the direct costs of CI/DI main replacements to be afforded piecemeal rate rider treatment and recovery from ratepayers.” *Id.* at 32, L. 10-12. These changes amplify the problems identified with Staff’s language.

Even if O&M and other productivity savings were taken into account in Rider ICR, it – like a prudence review – would be a very difficult undertaking. Company witness Schott and GCI witness Brosch agree on this point. Mr. Schott states that “[f]or the proposed Rider ICR mechanism to account for productivity and O&M savings would require an extensive analysis and consideration of all factors that impact capital costs and system operations. This is the type of in depth inquiry that normally attends a general rate case.” NS/PG Ex. JFS-2.0 at 17, L. 345-350. This is precisely Mr. Brosch’s point in his criticisms of Rider ICR: that a “rate case is undoubtedly the best place for consideration of the many relationships between capital spending levels and related productivity and O&M savings.” GCI Ex. 4.0 at 33, L. 13-15. A rate case does not face the same administrative burden as would a separate prudence review or savings true-up, because test year expense and rate base would be matched up at the same point in time. *Id.* at 33, L. 15-16.

III. CONCLUSION

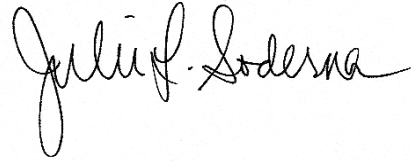
Peoples Gas' proposed Rider ICR is unacceptable and should be rejected by the Commission for the following reasons: it fails to satisfy legal and regulatory criteria to justify extraordinary rate treatment outside the traditional, balanced test year analysis; allows the utility to earn virtually unlimited returns; violates the PUA requirement that utilities provide least cost service; does not include a review of the prudence of the investment for which customers are expected to pay a premium (above the costs of the demonstrably reasonable existing main replacement program); does not reflect the operational savings the Company itself admits would result; has not been demonstrated to be necessary to provide safe and reliable utility service; and is administratively burdensome to the Commission, as well as other parties. Though the Company's Alternative Rider ICR cures some of these defects, it continues to possess the same problems that exist with the Company's original proposal. Staff's proposed Rider QIP, while also addressing some of Rider ICR's and Alternative Rider ICR's defects, should also be rejected as it adds complexity and administrative burdens to an already burdensome proposal, and also violates general principles of test-year ratemaking.

WHEREFORE, for the reasons stated herein, CUB respectfully requests that the Commission reject the Company's proposed Rider ICR, its Alternative Rider ICR and Staff's proposed Rider QIP.

Respectfully submitted,

CITIZENS UTILITY BOARD

Dated October 12, 2007

A handwritten signature in black ink, reading "Julie L. Soderna". The signature is fluid and cursive, with the first name "Julie" and last name "Soderna" clearly legible.

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